

From: [Steve Rymer](#)
To: [Angie Garcia](#); [Michelle Wilson](#)
Subject: FW: Public Comment on ZA-14-26 Lightpost - Riverpark Hospitality
Date: Wednesday, March 18, 2015 11:36:05 AM
Attachments: [Presentation March 16 2015 v7.pdf](#)
[ATT21244.htm](#)
[image001.png](#)

Steve Rymer

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From: Ashis Roy [<mailto:ashis@hiemorganhill.com>]
Sent: Wednesday, March 18, 2015 11:33 AM
To: Steve Tate; Rich Constantine; Larry Carr; Marilyn Librers; Gordon Siebert; Steve Rymer; Edith Ramirez
Cc: David Dworkin; Jeannie Cabral; Karen Mendez; Sunil Patel; Sunit Doshi; Nelson Chao; Jimmy Quality Inn; Nayan Patel Morgan Hill; Kusum Panwala; Sandip Panwala; Neil Patel; Ashis Roy; Neha Roy
Subject: Public Comment on ZA-14-26 Lightpost - Riverpark Hospitality

Dear Morgan Hill Mayor and City Council Members,

My name is Ashis Roy and I represent the Morgan Hill Hotel Coalition, which is a group of local limited service hotels. (Holiday Inn Express, Courtyard, Residence Inn, Hampton Inn, Comfort Inn, Quality Inn, and Microtel).

The Coalition recently found out about proposal ZA-14-26 Lightpost - Riverpark Hospitality for a planned zoning amendment from light industrial to commercial for a hotel use. This is deeply concerning to the Coalition, and unfortunately, we did not have the opportunity to express our opinions to the Planning Commission. ZA-14-26 is on the City Council's agenda tonight for public comment.

The Coalition had the privilege of discussing ZA-14-26 with Steve Rymer, City Manager, and Edith Ramirez, Economic Development Manager, earlier this week. I appreciate their time and effort in hearing our thoughts.

Attached is a PowerPoint presentation outlining the current state of the Morgan Hill hotel market and the devastating potential impact of this zoning amendment.

Please review it and I plan to go over the presentation tonight with the City Council.

Please feel free to contact me anytime at (408) 300-4800 or ashis@hiemorganhill.com. Thank you.

Regards,

Ashis Roy
Morgan Hill Hotel Coalition

March 18th, 2015

**RE: ZA-14-26
Lightpost – Riverpark
Hospitality**

*Zoning Amendment from
Light Industrial to
Commercial for Hotel Use*

**Morgan Hill
Hotel Coalition
Presentation to
City Council**

By: Holiday Inn Express MH
Courtyard Marriott MH
Residence Inn MH
Hampton Inn MH
Comfort Inn MH
Quality Inn MH
Microtel MH

Current Morgan Hill Supply of Hotel Rooms – Upper Midscale Segment

Hotel Name	Number of Rooms
Courtyard by Marriott	90
Comfort Inn	53
Hampton Inn	106
Holiday Inn Express	85
Quality Inn	83
Residence Inn by Marriott	<u>90</u>
Total Rooms:	507
Proposed Hotel – StonePark Capital	104
% Increase in Room Supply	20.5%
+ 2 Hilton Hotels – River Park Hospitality	190
% Increase in Room Supply	37.5%
TOTAL % INCREASE ROOM SUPPLY	58%

Corporate Room Demand Generators in Morgan Hill

> 300 Nights per Year*	< 300 Night per Year*
Anritsu	Anaerobe Systems
Specialized Bicycles	Infineon
IBM (in San Jose)	Sakata Seeds
	In N Out
	ITT Corporation
	Paramit
	Tencate
	Flextronics
	Construction companies

Notable decrease in demand as they open offices in Milpitas

Conclusion: There are not sufficient large corporate demand generators in Morgan Hill to fill its existing supply. Our hotels are busy because of **San Jose overflow**.

*Note: Room demand differs between hotels. Data is based on Holiday Inn Express

Employers that have left Morgan Hill in past 5 Years

- Hospira
 - Replaced by Shoe Palace
 - No room demand
- Comcast
- Custom Chrome
- Fox Racing
- Sunseed

New Large Employers entering Morgan Hill (150+ Employees) in past 5 years



- On positive note, Morgan Hill's existing businesses are expanding
- No new major employers are entering market
- Shifting demand closer to San Jose / Milpitas

% Breakdown of the Final (office) Destination of Morgan Hill Hotel Guests on Weekdays

Hotel	San Jose	North (Peninsula)	South (Gilroy)	Other	Morgan Hill
Holiday Inn Express	50%	5%	2%	13%	30%
Courtyard	50%	0%	0%	1%	49%
Residence Inn	45%	0%	0%	0%	55%
Comfort Inn	65%	5%	10%	5%	15%
Quality Inn	55%	5%	0%	5%	35%
Hampton Inn	40%	0%	10%	10%	40%

Source: These are only estimates and each hotel individually provided this information

Note: Hotels not included in this survey: Extended Stay of America (99), Microtel (60), Executive Inn (30)

San Jose Hotel Room Supply Explosion

January 2014

Pipeline			
Market: San Jose/Santa Cruz, CA			
Under Construction		Planning	
Properties	Rooms	Properties	Rooms
8	991	12	1534

January 2015

Pipeline			
Market: San Jose/Santa Cruz, CA			
Under Construction		Planning	
Properties	Rooms	Properties	Rooms
8	1063	27	3456

15 properties and over 2,000 rooms added to pipeline in 1 year

- San Jose is expected to have an increase supply of 4,519 rooms in next 2 Years (1,063 + 3,456)
- Total mid-scale rooms in San Jose / Santa Cruz Tract: 29,076. Total room supply: 34,000
- **% Increase: 15.5%**

San Jose Room Supply Impact on Morgan Hill Hotel Occupancy

	# Rooms:	Estimated		% of Rooms From San Jose	AFTER SJ Supply Increase			Total Room Nights Sold	2017 fwd. New % Occupancy
		Annual Room Nights Supply	% Occupancy		Room nights From San Jose	% Deciding to Stay in Morgan Hill, not SJ	Room nights From San Jose		
HI Express	85	31,025	70%	50%	10,859	60%	4,344	17,374	56%
Courtyard	90	32,850	70%	50%	11,498	60%	4,599	18,396	56%
Residence Inn	90	32,850	70%	50%	11,498	60%	4,599	18,396	56%
Hampton Inn	106	38,690	70%	50%	13,542	60%	5,417	21,666	56%
Comfort Inn	53	19,345	70%	50%	6,771	60%	2,708	10,833	56%
Quality Inn	83	30,295	70%	50%	10,603	60%	4,241	16,965	56%
	507	185,055			64,769		25,908		
	New Supply of:		Total Annual	Morgan Hill	% Occupancy				
	San Jose Hotel Rooms		Room Nights	Contribution	Contribution				
San Jose	4,519		1,649,435	25,908	1.6%				

Assumptions:

- After San Jose room supply increase, Morgan Hill hotels are still able to capture 60% the San Jose traffic
 - Lose only 40% (quite optimistic)
- Morgan Hill hotels occupancy drops to 56% from 70%
- Average Daily Rate (ADR) drops by 15% per hotel

What is the Fiscal Impact to Morgan Hill from a TOT perspective?

		Estimated						New Average	2017 fwd.
	# Rooms:	Annual Room Nights Supply	% Occupancy	Average Daily Rate:	Room Revenue:	TOT Tax: 10%	New Occupancy After Supply Increase:	Daily Rate -15%	New TOT Tax Collections:
HI Express	85	31,025	70%	\$ 120	\$ 2,606,100	\$ 260,610	56%	\$ 102	177,215
Courtyard	90	32,850	70%	\$ 130	\$ 2,989,350	\$ 298,935	56%	\$ 111	203,276
Residence Inn	90	32,850	70%	\$ 130	\$ 2,989,350	\$ 298,935	56%	\$ 111	203,276
Hampton Inn	106	38,690	70%	\$ 125	\$ 3,385,375	\$ 338,538	56%	\$ 106	230,206
Comfort Inn	53	19,345	70%	\$ 110	\$ 1,489,565	\$ 148,957	56%	\$ 94	101,290
Quality Inn	83	30,295	70%	\$ 100	\$ 2,120,650	\$ 212,065	56%	\$ 85	144,204
	507	185,055			\$15,580,390	\$ 1,558,039			\$1,059,467

**TOT Collection Change: -\$ 498,572
-32.0%**

Will adding additional rooms to Morgan Hill alleviate the situation?

- NO!!
 - Hotel rooms do not create demand
 - Rate war between Morgan Hill hotels
 - Rates further depressed
 - TOT collection is reduced because of rate and occupancy contraction (32% reduction)
- Hotel industry is entering the top of a 7 year cycle, which began in 2009
 - The market condition in 2017 when hotels open - ??

What happens to the Morgan Hill Hotel economy when San Jose's supply comes on line?

- San Jose corporations stop sending their travelers to Morgan Hill because there is adequate room supply in San Jose at attractive rates, and Morgan Hill hotels occupancy drops by 14-25%
 - **With 58% increase in room supply in Morgan Hill, occupancy will drop by 30-40%**
- Average Daily Rate Decreases by 15-40% to attract those corporate clients back to Morgan Hill
- City's TOT Revenue drops by **at least 32%**

Result:

- Lower end clientele entering Morgan Hill
 - More criminal activity, disturbances, car thefts, etc...
 - Increased burden Morgan Hill Police and Fire Department
- Deferred maintenance and overall quality of existing room supply
 - Morgan Hill gains reputation of "hospitality ghost-town" and poor quality hotels

Facts:

- Hotel room supply does **NOT** create hotel room demand
- Most of Morgan Hill's weekday guest travel OUTSIDE of Morgan Hill for business
 - High concentration traveling to San Jose
- Morgan Hill is an overflow market for San Jose and the Bay Area
 - Conventions
- Morgan Hill does not have the corporate base to fill its **existing** supply of hotel rooms on weekdays
- Morgan Hill's new hotels: Marriott properties, Comfort Inn and Holiday Inn Express were constructed in anticipation of Coyote Creek's development during the Dot Com Boom, but that never materialized
 - Oversupply of hotel rooms
- Weekend business: A hotel cannot survive on weekend business alone: tourism and sports tournaments create demand 7-8 months of the year only
- Downtown boutique hotel cannot be support with additional supply
- **Conclusion:** The market **cannot** absorb an additional **190 rooms**

Key Takeaways

- Morgan Hill Hotel Coalition is **NOT** anti-growth
 - Advocate sustainable growth
 - Allow 1 hotel only and observe the rate and occupancy trends
- Morgan Hill's economy should not be tied to San Jose's fate, so we need our own strong employment base before expanding the hospitality sector
 - Attract higher wage jobs
- Expand the Morgan Hill room supply in proportion to actual demand, not speculation
 - The market needs more demand generators
 - Industrial users and or larger corporations
 - Tourism alone cannot support increased supply
- Rezoning from Industrial to Commercial gives unfair advantage to user
 - Sets wrong example for existing commercial space users
 - Changes risk profile for future developers and existing hotels
 - Office or industrial complex with Fortune 500 tenant is ideal
- History has taught us important lessons in overbuilding and oversupply in the past 15 years – Let's not make the same mistakes again

Recommended Next Steps

- Allow 1 hotel development until there are additional corporate demand generators
- Understand the occupancy and rate impact of San Jose Room supply increase and StonePark Capital's proposed hotel
 - 7 Year cycle
- The Morgan Hill Hotel Coalition intends to form a TBID ASAP to promote tourism within Morgan Hill
 - Increase TOT tax collections for city
 - Dedicated marketing budget to promote local businesses and events
 - Details to be discussed with Edith Ramirez, Economic Development Manager
- Request for Continuance for this proposal

Appendix A

Scenario Analysis #2

- After San Jose supply increase, Morgan Hill captures 50% of San Jose travelers
- Average Daily Rate drops 20%
- Morgan Hill TOT collections falls by 40%

	# Rooms:	Estimated			% of Rooms From San Jose	AFTER SJ Supply Increase				2017 fwd.
		Annual Room	%	Annual Room		Room nights	% Deciding to Stay	Room nights	Total Room	New %
		Nights Supply	Occupancy	Nights Sold		From San Jose	in Morgan Hill, not SJ	From San Jose	Nights Sold	Occupancy
HI Express	85	31,025	70%	21,718	50%	10,859	50%	5,429	16,288	53%
Courtyard	90	32,850	70%	22,995	50%	11,498	50%	5,749	17,246	53%
Residence Inn	90	32,850	70%	22,995	50%	11,498	50%	5,749	17,246	53%
Hampton Inn	106	38,690	70%	27,083	50%	13,542	50%	6,771	20,312	53%
Comfort Inn	53	19,345	70%	13,542	50%	6,771	50%	3,385	10,156	53%
Quality Inn	83	30,295	70%	21,207	50%	10,603	50%	5,302	15,905	53%
	507	185,055		129,539		64,769		32,385		

	# Rooms:	Estimated			Room Revenue:	TOT Tax: 10%	New Occupancy After Supply Increase:	New Average	2017 fwd.
		Annual Room Nights Supply	% Occupancy	Average Daily Rate:				Daily Rate	New TOT Tax Collections:
HI Express	85	31,025	70%	\$ 120	\$ 2,606,100	\$ 260,610	53%	\$ 96	156,366
Courtyard	90	32,850	70%	\$ 130	\$ 2,989,350	\$ 298,935	53%	\$ 104	179,361
Residence Inn	90	32,850	70%	\$ 130	\$ 2,989,350	\$ 298,935	53%	\$ 104	179,361
Hampton Inn	106	38,690	70%	\$ 125	\$ 3,385,375	\$ 338,538	53%	\$ 100	203,123
Comfort Inn	53	19,345	70%	\$ 110	\$ 1,489,565	\$ 148,957	53%	\$ 88	89,374
Quality Inn	83	30,295	70%	\$ 100	\$ 2,120,650	\$ 212,065	53%	\$ 80	127,239
	507	185,055			\$15,580,390	\$1,558,039			\$ 934,823

**TOT Collection Change: -\$ 623,216
-40.0%**

Scenario Analysis #3

- After San Jose supply increase, Morgan Hill captures 40% of San Jose travelers
- Average Daily Rate drops 25%
- Morgan Hill TOT collections falls by **47.5%**

	# Rooms:	Estimated		Annual Room Nights Sold	% of Rooms From San Jose	AFTER SJ Supply Increase		Room nights From San Jose	Total Room Nights Sold	2017 fwd. New % Occupancy
		Annual Room Nights Supply	% Occupancy			% Deciding to Stay in Morgan Hill, not SJ	Room nights From San Jose			
HI Express	85	31,025	70%	21,718	50%	40%	10,859	6,515	15,202	49%
Courtyard	90	32,850	70%	22,995	50%	40%	11,498	6,899	16,097	49%
Residence Inn	90	32,850	70%	22,995	50%	40%	11,498	6,899	16,097	49%
Hampton Inn	106	38,690	70%	27,083	50%	40%	13,542	8,125	18,958	49%
Comfort Inn	53	19,345	70%	13,542	50%	40%	6,771	4,062	9,479	49%
Quality Inn	83	30,295	70%	21,207	50%	40%	10,603	6,362	14,845	49%
	507	185,055		129,539			64,769	38,862		

	# Rooms:	Estimated		Average Daily Rate:	Room Revenue:	TOT Tax: 10%	New Occupancy After Supply Increase:	New Average Daily Rate -25%	2017 fwd. New TOT Tax Collections:
		Annual Room Nights Supply	% Occupancy						
HI Express	85	31,025	70%	\$ 120	\$ 2,606,100	\$ 260,610	49%	\$ 90	136,820
Courtyard	90	32,850	70%	\$ 130	\$ 2,989,350	\$ 298,935	49%	\$ 98	156,941
Residence Inn	90	32,850	70%	\$ 130	\$ 2,989,350	\$ 298,935	49%	\$ 98	156,941
Hampton Inn	106	38,690	70%	\$ 125	\$ 3,385,375	\$ 338,538	49%	\$ 94	177,732
Comfort Inn	53	19,345	70%	\$ 110	\$ 1,489,565	\$ 148,957	49%	\$ 83	78,202
Quality Inn	83	30,295	70%	\$ 100	\$ 2,120,650	\$ 212,065	49%	\$ 75	111,334
	507	185,055			\$15,580,390	\$ 1,558,039			\$ 817,970

**TOT Collection Change: - \$ 740,069
-47.5%**

Contact Information

- For further information, please contact:
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